

# Size Still Matters

## Why the SBA needs to redefine “small” business.

By Odysseus Lanier

Each year the federal government purchases products and services totaling close to \$500 billion, nearly \$98 billion of them from small businesses. Congress requires federal agencies to award 23 percent of their contracts to small businesses. This mandate allows small business, the growth engine of the U.S. economy, to compete equitably for the billions of dollars the federal government spends each year.

The Small Business Administration (SBA) defines what is small, and thus who is eligible for certain government programs and preferences reserved for small businesses. The SBA standards determine how large an enterprise, with all its affiliates, can be to qualify for federal small-business programs. As a general rule, a small business is one that is organized for profit, is based in the U.S., makes a significant contribution to the U.S. economy by paying taxes or using products, materials, or labor, and does not exceed industry size standards.

How do you know if you exceed the size standard for your industry? If you are a product-based business (manufacturer, dealer, or distributor), the size standard is based on your

average number of employees over a 12-month period (referred to as “employee-based” size standards), typically 500 or fewer. If you are in a service industry, the standard is based upon the average annual sales over a three-year period (referred to as “revenue-based” size standards), ranging from \$750,000 to \$35.5 million.

Where you fall on the size scale impacts your ability to compete for and win government contracts. If you’re too small, it can be a daunting task just to pull a team together and bid on the work. However, if you’re too big by current SBA size standards, your company could be forced to compete with multibillion-dollar firms, a prospect that doesn’t seem very equitable. Unfortunately, many small businesses are caught in the middle: too big to be considered small and too small to be considered big. It’s time for the SBA to reconsider the size question and relevel the playing field.

The last increase in size standards occurred nearly seven years ago, in late 2005, when the SBA raised its revenue-based standards for inflation,

as it also had done in 2002. Now, as a result of the 2010 Small Business Jobs Act, the SBA is again considering increasing small-business size standards to reflect existing market conditions. As part of its ongoing comprehensive review of all small-business size standards, the SBA evaluated 46 industries in the professional, scientific, and technical services, as well as other service sectors, and issued a proposed rule in March 2011 to increase size standards just about across the board, or for 36 industries and one sub-industry. The proposed size standards vary from industry to industry.

I recently went to Washington to speak about the need to raise size standards in the accounting industry. On behalf of the American Institute of Certified Public Accountants, I testified before the House Committee on Small Business’ Subcommittee on Economic Growth, Tax and Capital Access. In my testimony, I stated that to fully capture the small-business contracting available, firms must have the resources to invest in the necessary infrastructure and properly perform services as required by federal government contracts. In order to make that

investment, the size limit in my industry needs to be tripled to \$25.5 million from its current \$8.5 million.

As it is now, the cap feels like an arbitrary cutoff in the middle of the market, forcing growing companies to compete with the four largest firms in the accounting industry, which have average annual revenues exceeding \$8 billion.

In fact, in 2010, three of the four largest firms in the accounting industry, according to federal data, were awarded 33.5 percent of all federal procurements. Even with a higher size limit, it is still highly unlikely that a firm with \$25.5 million in revenue can match the infrastructure of those top firms. However, it is possible that a firm of that size which invests in technology and training can meet the needs of sophisticated federal contracts and continue to provide high-quality work in a capable,

efficient, and appropriate manner.

The problem of size is not just in my industry. Many small-business firms are essentially caught in the middle. I strongly believe it is time to level the playing field again and allow small firms to provide their value-added services in an expanded federal marketplace. I encourage everyone to review the size standards for their industry at <http://www.sba.gov/category/navigation-structure/contracting-officials/eligibility-size-standards> to determine if they are reasonable and rational for promoting the growth of small businesses.

With a higher small-business size standard, more small businesses will have an opportunity to effectively respond to the Sources Sought/Request for Information (RFI) notices issued by federal agencies to determine the availability and capabilities of small businesses to perform specific federal

procurements. This will result in more federal agencies procuring high-quality services that meet their needs and increased opportunities for small businesses. ♦

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